

Via Electronic Filing

June 6, 2002

Mr. Paul Garnett, Attorney
Telecommunications Access Policy Division
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Re: Notice of Ex Parte Communication, CC Docket No. 98-171 -- In the Matter of
1998 Biennial Regulatory Review – Streamlined Contributor Reporting
Requirements Associated with Administration of Telecommunications Relay
Service, North American Numbering Plan, Local Number Portability, and
Universal Service Support Mechanisms

Dear Mr. Garnett:

This filing is submitted as a follow-up to the June 4, 2002 meeting between IPCA members and members of the Commission's Telecommunications Access Policy Division. At that meeting, you asked a number of questions regarding IPCA's position regarding several issues raised in the above proceeding. The intent of this letter is to provide further clarification of IPCA's position.

At the meeting, members of the Division asked IPCA to respond to criticism by ILECs that a per connection mechanism for assessing Universal Service Funds is inconsistent with the "every telecommunications carrier...shall contribute," language in Section 254(d) of the Act because under a per connection plan, only the carrier that provides a particular interstate end user connection will be required to directly contribute on the basis of that connection, while other service providers who serve that customer, but do not provide the actual end user connection will not be required to contribute on the basis of that same connection. Specifically, where an ILEC provides the interstate connection, only the ILEC will be required to collect and remit the USF contribution, while other carriers who provide service via that connection such as a PIC'd IXC, dial-around providers, and ISPs all who would not contribute to the fund based on that connection.

As IPCA explained, such criticisms have been roundly put to rest and have been well articulated in the Comments and Reply Comments submitted by the Coalition for Sustainable Universal Service (CoSUS), Sprint, AT&T, WorldCom as well as others in this proceeding. First, all interstate carriers will indeed be required to submit Universal Service fees when they provide the end user connection. As CoSUS explained in its Reply Comments,

Under the CoSUS proposal, AT&T, WorldCom and Sprint will all pay substantial connection-based universal service assessments. The fact that the total assessment to these carriers may be smaller under an end user connection-based assessment mechanism does not change that these carriers would be contributing according to the 'equitable and non-discriminatory' formula adopted by the Commission.¹

This point is further brought home in WorldCom's comments that note that it expects to provide local service to more than 3 million local lines by year end, and has recently launched a new bundled service offering, called "the Neighborhood" which currently reaches more than 50

¹ CoSUS Reply Comments, p. 57.

million households in 32 states.² In addition to the largest IXC's, other so-called "second-tier" carriers, such as IDT, also provide end user connections to the PSTN.³ (See attached). As explained above, it is clear that almost all interstate telecommunications carriers will contribute to the fund. Even those carriers who provide predominantly dial-around services more often than not provide some end user connections and will contribute. Indeed, the debit card providers with the largest percentage of market share in the prepaid industry are traditional IXC's and LEC's. According to a 2000 Frost and Sullivan study, the companies with the most market share in the calling card market are those who also provide end user connections, with AT&T, Sprint, and WorldCom holding approximately 67% of the total wireline calling card market, and RBOCs and other IXC's that provide interstate connections, including Verizon, Qwest, Ameritech, SBC, IDT⁴ and Cable and Wireless as other predominant market share holders.⁵ Further, many of IPCA's members also provide prepaid wireless services, and will contribute under a per-connection plan on a per phone number basis.⁶

Finally, even though there will likely be a few carriers, who, because they do not provide any end user connections will not be required to directly contribute to Universal Service, does not mean that a per connection assessment mechanism would violate the statute as some ILECs suggest. Such notions have been clearly dispelled by the cogent and persuasive legal arguments already submitted to the Commission by CoSUS, and Sprint.⁷ Indeed, as noted by Sprint in its initial comments, 254(d) does not require (and has never been read to require) all carriers providing interstate services to contribute to federal universal service funds.⁸ As CoSUS points out, even under the existing mechanism, carriers who provide wholesale services do not contribute to the fund.⁹ Further, some "pure IXC's" that would not contribute under an end user fee also do not contribute to the fund today because they market mostly international services to ethnic communities, and are classified as *de minimis* carriers under the existing regime. Indeed, under the existing regime, these providers must decide whether to provide attractive domestic services at all, given that if they tip the scale and provide over 12% domestic service, all of their revenue will be subject to assessment. Accordingly, converting to a per connection fee would eliminate the existing perverse incentives caused by existing regulation which has prevented some providers from entering the domestic marketplace.

Sincerely,

Howard Segermark

Attachment

² WorldCom Comments, p. 6.

³ Attach page from IDT website where they offer dedicated services

⁴ According to Frost & Sullivan, IDT and PT-1, which IDT acquired in 2001, account for 19% of the prepaid calling card market.

⁵ U.S. Wireline Card Calling Services Markets, Frost & Sullivan, 2000, p. 4-12 Calculation of market share includes both prepaid and post paid wireline calling card services. According to Frost & Sullivan, these three companies have a combined 83% market share in the post-paid wireline calling card market, and a 53% market share of the pre-paid market. (See Attachment 1).

⁶ Provide webpage from GPA prepaid wireless services.

⁷ Cite

⁸ Sprint FNPRM Comments, p. 19.

⁹ CITE